

United Stores Corporation

Report to Stockholders
Year Ending December 31, 1938

OFFICERS

GEORGE K. MORROW, *Chairman of the Board*

ROBERT W. JAMESON, *President*

RANDOLPH CATLIN, *First Vice-President*

GEORGE WATTLEY, *Secretary and Treasurer*

BOARD OF DIRECTORS

RANDOLPH CATLIN

GEORGE K. MORROW

WILBUR L. CUMMINGS

H. HOBART PORTER

ROBERT W. JAMESON

WALTER B. RYAN, JR.

THOMAS H. MCINNERNEY

EUGENE W. STETSON

GENERAL COUNSEL

SULLIVAN & CROMWELL.....NEW YORK, N. Y.

AUDITORS

PRICE, WATERHOUSE & Co.....NEW YORK, N. Y.

UNITED STORES CORPORATION

15 EXCHANGE PLACE

JERSEY CITY, N. J.

MARCH 20, 1939.

To the Stockholders of

UNITED STORES CORPORATION:

There are presented herewith the following financial statements of United Stores Corporation for the year ending December 31, 1938, with report of Messrs. Price, Waterhouse & Co. thereon:

Balance Sheet

Statement of Income and Expense

Statement of Surplus

For the information of the stockholders there are enclosed herewith copies of the Annual Report of McLellan Stores Company for the fiscal year ending January 31, 1939, and of the respective Annual Reports of McCrory Stores Corporation and Tobacco Products Corporation of Delaware for the year ending December 31, 1938.

By order of the Board of Directors.

GEORGE K. MORROW,

Chairman.

UNITED STORES

BALANCE SHEET—

ASSETS

CURRENT ASSETS:

Cash in banks	\$ 106,326.91
Account receivable, at nominal amount	1.00

\$ 106,327.91
1.00

OFFICE FURNITURE AND FIXTURES, at nominal amount

INVESTMENTS:

At cost:

McCrory Stores Corporation (Note 1)—	
14,100 shares convertible 6% cumulative preferred stock,	} \$5,548,582.31
par \$100 (28.2% of total outstanding)	
396,138 shares common stock, par \$1 (40% of total out-	
standing)	

McLellan Stores Company (Note 1)—	
8,322 shares 6% cumulative convertible preferred stock,	} 4,521,099.39
par \$100 (27.74% of total outstanding)	
380,098½ shares common stock, par \$1 (51.84% of total	
outstanding)	

At valuation authorized by Board of Directors in 1933 plus
cost of subsequent purchases:

Tobacco Products Corporation of Delaware (Note 2)—	
20,844 shares of capital stock, par \$10 (63.23% of total	
outstanding)	624,100.25

10,693,781.95

NOTE 1—Quoted market prices at December 31, 1938:—

McCrory Stores Corporation:	
6% preferred stock	89 bid—92 asked
Common stock	10⅞
McLellan Stores Company:	
6% preferred stock	80 bid—95 asked
Common stock	9¼

NOTE 2—The value of this investment is contingent upon the amount of taxes which may be payable by Tobacco Products Corporation of New Jersey (a wholly owned subsidiary of Tobacco Products Corporation of Delaware) upon \$36,286,128.85 received from American Tobacco Company in commutation of a lease in January 1935. On June 7, 1937 the Treasury Department assessed \$4,967,890.40 as tax, penalty and interest against Tobacco Products Corporation of New Jersey and demanded and received, on account of the tax so claimed, that company's cash balance of \$725,638.27 which was its only asset. The amount of and persons liable for payment of any such taxes have not been finally determined but, in opinion of counsel, United Stores Corporation is not liable therefor.

\$10,800,110.86

To the Board of Directors of
UNITED STORES CORPORATION:

We have made an examination of the balance 1938 and of the statements of income and expense and we examined accounting records of the corporation and explanations from officers of the corporation.

In our opinion, based upon such examination and Federal income taxes more fully described in notes to the attached related statements of income and expense accepted principles of accounting consistently maintain the position of United Stores Corporation at December

56 Pine Street,
New York, N. Y.
March 15, 1939.

CORPORATION

DECEMBER 31, 1938

CURRENT LIABILITIES:		LIABILITIES
Bank loan, payable on demand		\$ 300,000.00
(Secured by 4,700 shares McCrory Stores Corporation 6% preferred stock and 1,450 shares McLellan Stores Company 6% preferred stock)		
Accounts payable		11,045.27
Unclaimed dividends		2,084.10
Provision for taxes (Note 3)		122,750.00
Payable to Tobacco Products Corporation of Delaware		264.07
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		\$ 436,143.44
CAPITAL STOCK AND CAPITAL SURPLUS:—		
Capital stock:		
\$6 cumulative convertible preferred stock, without par value, preferred over Class A and common as to \$115 per share plus accrued dividends on dissolution—		
Authorized—101,800 shares		
Outstanding, less 800 shares in treasury—		
96,795 shares stated at \$25 per share		\$2,419,875.00
Note—Preferred dividends are in arrears \$15 per share at December 31, 1938, or a total of \$1,451,925.		
Class A stock without par value, convertible, preferred over common as to \$4.20 per annum (cumulative to the extent earned in any fiscal year) and as to \$75 per share on dissolution—		
Authorized—916,000 shares		
Outstanding—915,979 shares stated at \$5 per share		4,579,895.00
Common stock without par value—		
Authorized—1,522,200 shares including 1,012,774 shares reserved for conversion of preferred and Class A stocks		
Outstanding, less 234 shares in treasury—		
504,162 shares stated at \$.50 per share		252,081.00
Capital surplus, per statement attached		2,874,455.86
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		10,126,306.86
EARNED SURPLUS SINCE JANUARY 1, 1937, per statement attached		237,660.56
NOTE 3—The company's Federal income tax returns for the years subsequent to 1935 are subject to final review by the Treasury Department with particular reference to the cost basis of securities sold and the profits resulting from the McCrory Stores Corporation reorganization.		
NOTE 4—In the opinion of counsel neither the provisions of the company's certificate of incorporation nor the statutes of Delaware create restrictions upon surplus growing out of the fact that upon involuntary liquidation the preferences of the preferred and Class A stocks exceed their respective stated values.		
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		<u>\$10,800,110.86</u>

sheet of United Stores Corporation as at December 31, and surplus for the year 1938. In connection therewith, and other supporting evidence and obtained information

and except as to the question concerning the liability for the balance sheet, the balance sheet shown above and assets and surplus fairly present, in accordance with the report of the corporation during the year under review, for the year ending December 31, 1938 and the result of its operations for the year.

PRICE, WATERHOUSE & Co.

UNITED STORES CORPORATION

STATEMENT OF INCOME AND EXPENSE FOR THE YEAR ENDING DECEMBER 31, 1938

Income:

Dividends received	\$659,694.30
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Expenses:

Stock transfer expenses	\$11,321.11		
Franchise and capital stock taxes	\$9,365.00		
Less—Amounts provided in prior years not required	<table><tr><td>4,345.57</td><td>5,019.43</td></tr></table>	4,345.57	5,019.43
4,345.57	5,019.43		
Interest paid	4,142.12		
Administrative and general expenses	87,017.03		
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	107,499.69		

Loss on sale of investments, based on average cost	2,419.07
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Provision for Federal income tax	13,500.00
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Profit for the year ending December 31, 1938, carried to statement of surplus	\$536,275.54
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UNITED STORES CORPORATION

STATEMENT OF SURPLUS FOR THE YEAR ENDING DECEMBER 31, 1938

Capital surplus:

Balance at December 31, 1937	\$2,927,638.73
<i>Deduct</i> —Excess of cost over stated value of 2,900 shares \$6 cumulative convertible preferred stock purchased for retirement....	\$53,185.00
Less—Excess of stated value over cost of scrip, representing 12 shares of common stock	2.13
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	53,182.87

Capital surplus at December 31, 1938, per balance sheet \$2,874,455.86

Earned surplus since January 1, 1937:

Balance at December 31, 1937	\$ 138,762.52
Profit for the year ending December 31, 1938, per statement attached	536,275.54
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	\$ 675,038.06
<i>Deduct</i> —Dividend of \$4.50 per share paid in cash on December 27, 1938 on \$6 cumulative convertible preferred stock	437,377.50
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Earned surplus at December 31, 1938, per balance sheet \$ 237,660.56

